CSR
COALITION FOR SECURE RETIREMENT - MICHIGAN

TESTIMONY ON SB 1040
May 21, 2012

Mr. Chairman and members of the subcommittee, my name is Todd Tennis, with Capitol Services, here to provide some additional comments on SB 1040 and its impact on active employees, as well as to introduce our final speaker, Gary Olson.

Regarding the impact on current employees, we ask you to bear in mind the fact that benefits have already and very recently been reduced:

- First, we note that the law affecting school retirees' benefits has been changed twice in the last five years to increase employees' contributions. Under PA 110-111 in 2007 and PA 75 of 2010, employee contributions on income above $15,000 were increased from 4.3% to 6.4% and employees began to have to pay 3% towards retiree health care.

- The legislation mentioned above also reduced benefits and eligibility in a number of ways, including the treatment of purchased service credit and the implementation of the graded scale premium for people hired starting mid-2008.

CSR appreciates the fact that the H-1 version reduces the proposed contribution rates to 4% for Basic and 7% for MIP members. The 4% for Basic would be more consistent with the changes made to the state employees' pension plan than the Senate passed version. However, together with the 3% contribution rate for retiree health care, the contribution rate would still be 7% and 10% respectively. Those costs will make it very difficult for school support staff to afford to maintain their current level of pension benefits. We urge this committee to find a way to enable support staff that may be working full time yet earning $15,000 to $20,000 per year to afford to remain on track for a secure retirement.

CSR is please that the proposed changes in the H-1 version regarding what can be counted as compensation no longer remove certain current very positive incentives:

- Retaining longevity retains an incentive for school and community college employees to provide longer-term service to students in their communities.

- Retaining tax-sheltered annuities retains an incentive for employees to save more for their retirement.

CSR does not take the unfunded accrued liabilities of this system lightly. At the same time, we view this liability as being somewhat like a mortgage, if one assumed that mortgages continuously rolled forward.

The issue is less what the total size of the UAAL is but whether there is an adequate payment plan, with appropriate investments adding to the amounts paid into it by employers and employees. For that reason, CSR has retained the next speaker, Gary Olson, former the director of the Senate Fiscal Agency and currently with Public Sector Consultants, to develop a report that he will address at this time.

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Coalition for Secure Retirement - Michigan

My name is John Olekszyk, and I am the President of the Coalition for Secure Retirement-Michigan (CSR), a coalition of eleven school and state employee and retiree organizations, one of which is the Macomb County School Employees Retirement Association, of which I am the legislative chair. Although I am also a member of the MPSERS Board, I am not speaking on behalf of that body but rather CSR and its members.

The Coalition for Secure Retirement-Michigan opposed SB 1040 as it passed the Senate because it did not fix the problems which have created the level of unfunded accrued liability and costs to employers. Instead, it simply transferred these costs to 190,000 retirees and 270,000 current school employees and, in its final version, actually increased employer costs in both the short and intermediate term. We see the causes of these high costs as:

- The fact that the state began prefunding retiree health case but then not only abandoned that effort but used the money that had been set aside for that purpose to pay for current costs.
- When Proposal A passed, among its many changes was moving school districts from paying the first 5% of MPSERS costs, with the state paying the rest, to paying 100% of those costs.
- The "stranded costs" created by changes in policies at the state level that moved many employees providing K-12 education from school districts that paid into MPSERS, and changes in local practices, moving many support jobs from the public into the public sector.
- A period of time in which investments have had lower returns than is true over the long term.

We believe that market returns will improve over the long haul and we have seen progress in that direction already. CSR has noted the steps that the Governor and legislature have taken toward prefunding retiree health care for the State Employees' Retirement System. We applaud that action and are pleased that the H-1 version of this bill takes steps toward prefunding so that investment earnings can begin to help finance retiree healthcare. Finding solutions to the Proposal A and "stranded costs" problems is more complex, and we can see that the substitute version of the bill takes steps in these direction as well, which we are looking forward to analyzing further. We ask that this committee work to address this problem rather than, again, shifting costs to active members and—very unfortunately, to retirees.

I would like to address the issue of increased costs to retirees and then Todd Tennis will speak to the issues affecting active members. Although many retirees have seen a reduction in their pension checks as a result of the recent changes to the state income tax law, SB 1040—in both the Senate passed and the H-1 version-- will further increase their costs. Please bear in mind that as of the most recent CAFR, the average MPSERS pension was $20,316 per year. A pre-Medicare retiree now pays $1548.48 a year for medical benefits covering just the retiree. SB 1040 would increase that amount to $1998.80. For a retiree covering himself and spouse, annual costs would increase from $1863 to $2876.88, as we understand the legislation. The current system of premium sharing adopted by the MPSERS Board and DTMB assures that older, Medicare eligible retirees do not pay more than pre-Medicare retirees. SB 1040 does not appear to preserve that "level playing field" but appears to require Medicare eligible retirees to pay more for their health care.

Please bear in mind as well that other changes to MPSERS health care have increased what retirees pay over the past two decades. Premium cost sharing is just part of the picture. Drug coverage has changed to increase copayments and out of pocket maximums, with incentives to purchase generic and formulary drugs and to increase deductibles. Because these changes are made by the MPSERS Board, in concert with DTMB, these cost shifts to retirees are not as evident….but they do have an impact on retirees being able to afford their health care.

Before we move on to Mr. Tennis's remarks, I would just ask you again, from retirees' perspective, to address the causes of the problem and not shift additional costs to them for healthcare at a time when they are on fixed incomes.